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Debating East Asian Capitalism: Issues and Themes

Andrew Walter and Xiaoke Zhang

Since the middle of the twentieth century, capitalism has worked tremendously well in much of East Asia. The remarkable development of first Japan and then South Korea (henceforth Korea), Singapore, and Taiwan into world-class economies in defiance of an array of political and social challenges both at home and abroad earned them the hyperbole of the East Asian miracle. The extraordinary episodes of high growth since the 1970s in the Southeast Asian resource-based countries, specifically Indonesia, Malaysia, and Thailand, displayed striking similarities in terms of policy settings and economic outcomes. China and Vietnam, the two nominally socialist countries, made serious and sustained efforts to turn their economic systems in an unequivocally capitalist direction during the final two decades of the twentieth century, achieving equally remarkable growth outcomes. East Asian capitalism also appeared to be highly resilient, rebounding quickly from the global downturn of the early 1980s, the more challenging Asian crisis of the late 1990s, and most recently the global financial crisis of the late 2000s. By comparison to those of many other developing and emerging market countries, the experiences of capitalist development in many East Asian economies have been exemplary and enviable.

However, the same forces that have made East Asian capitalism so dynamic for so long have inevitably brought with them formidable and ever-present challenges. The continuous process of capital accumulation and the perennial reconstitution of markets as the organizing principle of the economy have unleashed constant political, demographic, and economic pressures. The strains of capitalist development have been acutely manifest in widening income gaps, persistent corruption, environmental degradation, and governance failures across the region. Internal social and political conflicts have
threatened in some cases to relegate some countries to a second tier characterized by mediocre innovation performances, relatively high sociopolitical instability, and economic stagnation (Table 1.1).

Although there is no trend decline in average regional growth rates since the 1980s, underlining the point about resilience since the Asian crisis, slower growth since the 1980s is observable in the most advanced Asian economies. Among this top tier, some reduction in growth rates should have been expected given their successful catch-up. But with the exception of Japan, per capita growth in this category (Hong Kong, Korea, Singapore, and Taiwan) remains impressive given their now relatively high levels of per capita income.1 There are arguably more worrying cases of slowing growth in the middle tier, notably Malaysia and Thailand, along with persistently mediocre growth outcomes in the Philippines. These latter cases are increasingly at odds with the picture of continuing economic dynamism presented by countries as diverse as China, India, Indonesia, and Vietnam. Thus, although the average dispersion of growth outcomes in the region has actually fallen since 1980, there has been a growing divergence in growth performance between the most advanced countries and China, with attendant domestic and international implications.

Some have argued that growth slowdowns in the top and middle tiers of Asian economies indicate a deeper, structural problem with Asian capitalism (Islam and Chowdhury, 2000; Akhand and Gupta, 2005). In this view, globalization has

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1 Average per capita income levels (measured using purchasing power parity) in 2010 are very similar to those in the United States for Hong Kong and Singapore, and are about two-thirds of the US level for Japan, Korea, and Taiwan (IMF, World Economic Database, April 2010).
disrupted the existing configuration of business, financial, and industrial systems in some countries and eroded the broad institutional framework that underpinned past economic success. A number of East Asian governments have tried to balance external and domestic pressures for institutional reform in recent years. But it remains unclear whether patterns of institutional reform in the region and their relationship to growth outcomes exhibit any general tendencies, and what are the dominant forces behind the changes that have taken place.

An appropriate point of departure for examining these questions is the varieties of capitalism (VoC) approach (Soskice, 1999; Hall and Soskice, 2001; Hall and Gingerich, 2009) that has gained considerable currency in recent years. This approach claims to be firm-centred and prioritizes institutionalized relationships between firms, employees, and shareholders as the key determinants of national economic performances. Focusing on the process of economic policy adjustment in developed countries during the 1980s and 1990s, it distinguishes between two ideal types: liberal market economies (LMEs) and coordinated market economies (CMEs). While firms develop and manage relations with other actors through arms-length competitive markets in LMEs, they are said to do so primarily through non-market or strategic coordination in CMEs. These two distinct capitalist forms rest on institutional complementarities by which different spheres of the political economy are mutually reinforcing. The resultant comparative institutional advantages not only mediate national responses to globalization—thereby reinforcing the tendencies towards systemic divergence—but also render such responses path dependent. In the case of ‘mixed market economies’ (MMEs) in which neither market nor strategic forms of coordination predominate, the VoC approach predicts that globalization is more likely to be institutionally destabilizing, promoting convergence towards one or other of the two ideal types (Hancké et al., 2007b: 6–7).

Recent critiques and revisions of the VoC approach have converged on two key themes. First, the reductive tendency of the approach to posit a binary division of capitalism into two ‘equilibrium’ varieties has raised serious doubts about whether that division can accommodate the actual diversity of capitalism at the sub-national, national, and transnational levels (Howell, 2003; Thelen, 2004; Crouch, 2005; Hay, 2005). Alternative conceptual frameworks have thus been developed to identify more fine-grained and complex typologies of capitalism not only in advanced industrial societies (Amable, 2003; Boyer, 2005; Hancké et al., 2007b: 24–8; Whitley, 2007; Streeck, 2009) but also in emerging market countries (Nölke and Vliegenthart, 2009; Schneider, 2009). The downside of this proliferation of additional capitalist varieties is that it dilutes the relative parsimony of the original VoC approach without providing a typology on which national and regional specialists can agree.

The second theme that has arisen from the debate over the VoC approach concerns its core concepts of institutional complementarities and coordination.
Many complain that the VoC framework is unable to explain fundamental institutional change except through recourse to the role of exogenous forces in ‘critical junctures’ (Howell, 2003; Crouch, 2005; Streeck and Thelen, 2005; Mahoney and Thelen, 2010). The functionalism inherent in the VoC approach also assumes that institutional outcomes are economically determined without clearly specifying the ‘selection mechanism’ for national success or failure (Streeck, 2009). Recent revisionist literatures have instead highlighted the potential importance of endogenous processes of incremental change, of more open-ended possibilities for institutional evolution, and of the role of political coalitions, states, and policy discourses in such processes (Culpepper, 2005; Hall, 2006; Schmidt, 2009; Streeck, 2009; Mahoney and Thelen, 2010). These issues are addressed in the final section of this chapter.

Throughout the post-1945 period, some East Asian countries managed to resolve, in a wide variety of ways and at different points in time, the political, policy, and institutional barriers to rapid growth. But just as in the developed world, these successful countries have not converged on a single institutional framework, notably including the period since 1980 when the globalization of production and finance has accelerated. This outcome raises important questions about whether successful East Asian economies collectively or singularly represent different models of capitalism that are distinct from the standard typologies, what patterns of institutional evolution in the region can be discerned, and whether the causes of these institutional changes are similar or distinctive compared to that which has occurred in the developed world.

This volume brings together conceptual and empirical analyses of the evolving patterns of East Asian capitalism against the backdrop of global market integration and periodic economic crises since the 1980s. More specifically, it seeks to provide an interdisciplinary account of variations, changes, or continuities in institutional structures that govern financial systems, industrial relations, and product markets and shape the evolution of national political economies. The geographical focus of the volume is China, Japan, Korea, Indonesia, the Philippines, Malaysia, Taiwan, and Thailand. This focus is inevitably selective, but it provides a lens through which the changing varieties of capitalist development in East Asia generally can be understood.

In line with this analytical focus, the volume has three different yet interrelated objectives. First, building on extant comparative institutional analyses, it provides a typology of East Asian capitalism that identifies key institutional domains to be included in cross-national comparisons and establishes guiding principles for categorizing political economies across the region. Second, an analytical framework is required to elucidate the nature and mode of institutional changes in East Asian countries over the past two decades. The volume provides such a framework by establishing the theoretical criteria for identifying observable changes and illuminating the trajectory and pattern of these
changes both within and across the key institutional spheres of the East Asian political economy. And finally, the volume advances theoretical propositions concerning the potential causes of these institutional changes. While particular chapters emphasize different causal variables, collectively they constitute a coherent effort to theorize the changing varieties of East Asian capitalism.

The balance of this chapter is divided into five sections. The first delineates the major contributions of this volume to current debates about the changing dynamics of East Asian capitalism. The second section provides a typology of capitalist varieties in East Asia. The third and fourth sections suggest a conceptual framework for illustrating the properties and patterns of institutional changes and identify the key causal variables of changes respectively. The fifth and final section concludes by discussing the organization of the volume.

Key Contributions

The study of capitalist development in East Asia has centred on several prominent theoretical paradigms that have ebbed and flowed though the past decades. Early analyses (Pye, 1967; Myrdal, 1968) couched in the terms of modernization theory held traditional cultural orientations culpable for hindering the emergence of modernizing social, political, and institutional environments conducive to entrepreneurship and industrialization in East Asia. The rapid growth of Korea, Taiwan, and Singapore in the 1960s and 1970s delivered a serious blow to modernization theory and saw the resurgence of the neoclassical perspective as canonical accounts of capitalist dynamism in East Asia (Little et al., 1970; Chen, 1979; Balassa, 1981). The basis of economic success was considered to be the outward-looking and market-oriented policy settings in which government intervention was limited and entrepreneurs were freed to pursue their natural comparative advantage. In the 1980s, these neoclassical accounts were challenged by a developmental state literature that attributed rapid industrialization in some parts of East Asia to the growth-promoting role of the state. This literature emphasized state strength and capacity as the crucial determinants of cross-national variations in the trajectory of capitalist development (Johnson, 1987; Amsden, 1989; Wade, 1990). Since the 1990s, this statist approach has been revised to take account of changes in state structures and development strategies across the region.² However, this literature has for the most part developed in isolation from the literature on comparative capitalism, prompting some to call for more

² Revisionist efforts are represented in Clark and Roy (1997); Weiss (1998, 2003); Boyd and Ngo (2005); and Underhill and Zhang (2005).
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attention to be given to understanding the changing varieties of capitalist institutions in the Asian region (Haggard, 2004).

As noted earlier, most studies on the varied and changing configurations of national capitalism in the context of globalization have focused on advanced industrial societies. To the extent that attention has been paid to developing and emerging market countries, this has mainly centred on East Central Europe (Feldmann, 2007; King, 2007; Lane and Myant, 2007; Mykhnenko, 2007; Nölke and Vliegenthart, 2009) and Latin America (Huber, 2003; Schneider, 2009). Given the continuing dramatic shift in the centre of gravity of the global economy towards the East Asian region (Quah, 2010), the lack of attention to this part of the world is both striking and worrying. This volume seeks to fill this crucial analytical lacuna by making three important contributions to current theoretical and policy debates in the comparative political economy of capitalism: it shifts the empirical focus away from Asian development strategies to the varieties of capitalist institutions; it develops a holistic approach to exploring the interactions between dominant spheres of Asian political economies; and it analyses changes in the institutions of East Asian capitalism.

As noted earlier, scholarly efforts to develop a typology of capitalist diversity have not to date effectively balanced analytical parsimony with empirical diversity. Authors uncomfortable with the North Atlantic-centrism of the VoC literature have often described East Asian capitalism in a largely undifferentiated manner, portraying the institutional similarities across the region as sufficient to justify such encompassing terms as ‘state-led’ (Wade, 1990), ‘network’ (Fruin, 1999), ‘relationship-based’ (Rajan and Zingales, 1998), or simply ‘Asian’ capitalism (Amable, 2003). This tendency is also visible in work by some other authors who stress the resilience of East Asian capitalism in the face of globalization (Johnson, 1998; Rhodes and Higgott, 2000). At the other extreme, a significant body of region-specific literature has denied the existence of a single East Asian model, preferring to stress the great diversity of the political economies of the region (Beeson, 1999; Carney et al., 2009; Tipton, 2009).

There is an obvious tension here between the desire to formulate parsimonious theories of institutional change or resilience and the need to be sufficiently attentive to the significant differences among Asian political economies. In an attempt to overcome this problem, some authors have distinguished Asian political economies on the basis of business systems (Whitley, 1992; Safarian and Dobson, 1996; Orrù et al., 1997; Carney et al., 2009), financial institutions (Haggard et al., 1993; Ghosh, 2006), labour markets and industrial relations (Deyo, 1989; Rowley and Benson, 2000; Warner, 2002), and welfare regimes

3 When dealing with the important Japanese case, the VoC literature generally placed Japan in the CME category, underplaying the greater coordinating role of the state compared to the paradigmatic German case.
(Ramesh, 2000; Holliday and Wilding, 2003; Walker and Wong, 2005). The difficulty with such studies from our perspective is that each focuses narrowly on only one among a number of important institutional spheres. This evade the questions of institutional complementarities and of the possibility of identifying broader patterns of capitalist organization.

Another line of approach has similarities with the VoC literature in its emphasis on the persistence of long-established differences in national economic architectures arising from such factors as the timing of industrialization, trajectories of economic development, and patterns of state intervention (Weiss, 2003; Holliday, 2005; Chang, 2006; Mo and Okimoto, 2006). This literature has been concerned with identifying the elements of continuity in the responses of national political economies to external pressures for change, particularly those associated with the crisis of the late 1990s. While these historical institutionalist analyses provide an important corrective to market-driven explanations that presume rapid institutional convergence (e.g. Rajan and Zingales, 1998), they underplay significant changes in a range of institutional spheres of the East Asian political economy in recent decades (Vogel, 2006; Yeung, 2006; Peng and Wong, 2008; Zhang, 2009). Just as the VoC literature has sometimes overlooked the profound changes that have occurred in some of its paradigmatic cases, this empirical literature has shown that theory can also be an obstacle to recognizing and understanding institutional change in East Asia, as will be shown in the following section.

**A Typology of East Asian Capitalism**

This section delineates the defining features of key institutional dimensions that underpin modern capitalist economies, develops some guiding principles for explaining the organization of these dimensions that generates the systemic logic of economic activity, and describes the different configurations of key institutional domains across capitalist models in East Asia.

Developing a typology of capitalist models, even within a region, that is both conceptually parsimonious and sufficiently empirically encompassing is difficult. The difficulty is compounded by the lack of widely accepted theoretical criteria for identifying key institutional spheres that characterize political economies and for ascertaining the number of distinct models of national capitalisms (Jackson and Deeg, 2008). However, we suggest that there is a considerable degree of consensus among both the VoC and the Asian institutionalist literature that business systems, financial market architectures, and

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4 For an analysis of the nature and implications of the changes in the German system since the 1980s, see Streeck (2009).
labour market regimes are all crucial components of capitalist political economies. We also argue that there is a growing consensus that the roles of politics and the state require much greater attention than they were initially given in the VoC approach (Hancké et al., 2007b).

Institutional Domains

This study prioritizes business, financial, and labour market organizations as core components of a typology of evolving capitalist models. Note that although the VoC approach places considerable emphasis on the importance of institutional complementarities across these domains within both LMEs and CMEs for different kinds of innovation, production strategies, and welfare provision, the analysis of these claimed complementarities is not a major concern here. However, it is important to recognize that business, financial, and labour market organizations all interact to shape both how economic inputs are turned into outputs and societal organization more generally.

Business systems pertain to the ways in which intra-firm and inter-firm relations are coordinated to carry out production and exchange. Business systems play a linchpin role in calibrating the character of financial and labour institutions in a given political economy (Whitley, 1999; McNally, 2007). This is reflected in both the comparative capitalism literature and in studies on the politics of East Asian development (Maclntyre, 1994; Gomez, 2002). Furthermore, economic performance is a crucial function of intra-firm relations and inter-firm alliances that affect the orientation of industrial policies (Haggard, 2004; Root, 2006). Finally, given the importance of business systems in influencing other institutional arrangements and development outcomes, a focus on such systems is likely to provide an analytically useful means to capture change since firms are often key agents of institutional innovation and recombination (Crouch, 2005).

Intra-firm relations and inter-firm alliances interact to shape the national configuration of business systems (Safarian and Dobson, 1996; Whitley, 1999; Redding, 2005). Intra-firm relations are reflected in the distribution of power between managers and shareholders and between controlling and minority shareholders. They define the extent to which ownership is concentrated and owners are directly involved in corporate management. Intra-firm relations are also shaped by the forms of manager–employee interactions and the degrees of employee influence over work-organization decisions. These two key aspects of intra-firm relations—ownership structure and work management—have varied across East Asia, producing different policy and industrialization patterns (McVey, 1992; Whitley, 1992, 1999; Fields, 1995). Inter-firm relations include alliances or networks between firms from different industries and may foster long-term and reciprocal business partnerships and develop functional
competencies. In East Asia, such inter-firm networks have differed in terms of their breadth and longevity, with inter-firm ties being broad and long-lived in Japan, Korea, and Taiwan but narrow and temporary in many Southeast Asian countries.

The second institutional dimension in our typology is financial regimes. Financial systems channel savings into investments and are central to many of the key contributions to the VoC debate (Rajan and Zingales, 2003b; Culpepper, 2005). These have emphasized not only the dominant forms of industrial financing and the terms on which such financing is provided but also corporate governance patterns and financial regulatory regimes. National financial systems across East Asia, despite cross-country variations, have been generally described as bank based. Bank-centred financial markets, the privileged position of states in market regulation, and the dominant role of debt instruments in external corporate financing comprise fundamental elements of this system. They have influenced both the development trajectories of East Asian economies and other socio-economic institutions, above all business systems (Haggard et al., 1993; Haggard and Lee, 1995). More recently, financial market liberalization and integration have brought about crucial changes to East Asian bank-based financial systems of East Asia, but have not necessarily preordained convergence towards the Anglo-American model of capitalism (Walter, 2008; Zhang, 2009).

Financial systems are the short-hand expression for two interrelated institutional components: financial market structures and corporate governance patterns (Allen and Gale, 2000; Hölzl, 2006). In the comparative capitalism literature, these two institutional components of the financial system are considered to reinforce each other (Hölzl, 2006; Hall and Gingerich, 2009). Market structures are reflected in the relative importance of capital markets versus banks and non-bank financial institutions. Corporate governance patterns that derive from and reinforce financial market structures define corporate decision-making processes through which conflicts of interest between different groups within a firm can be managed. National financial systems are thus distinguished between bank-based and capital market-oriented market structures, and between insider- and outsider-oriented corporate governance regimes.

The third institutional dimension in our typology is labour market systems. The organization of work is central to every capitalist economy. Prior to the 1980s, poorly institutionalized industrial relations, politically weak unions, and family-centred welfare provision were widely regarded as defining features of labour market systems in many East Asian countries. These features were in turn seen as a function of state strategies and discourses, growth-first development imperatives, and productivist social policies that favoured business priorities (Deyo, 1989; Pempel, 2002; Holliday and Wilding, 2003). Over the
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past two decades, labour market institutions across East Asia—as elsewhere—have been experiencing crucial changes and new strains as a result of intensified market competition, the globalization of production, and in some cases democratization. Although expressed in different ways in different East Asian political economies, these changes and strains are manifest in the political ascendancy of unions, improved labour power and rights, labour market liberalization, and increased roles of states in welfare provision.

This volume uses the term labour market systems to denote a mix of employment relations, union organization, and welfare provision at the national level. In comparative literatures on developed (Crouch, 1993; Bamber and Lansbury, 1998) and East Asian countries (Frenkel and Kuruvilla, 2002; Kuruvilla and Erickson, 2002), employment relations are examined and compared along such key dimensions as the strength of labour unions, the structure of collective bargaining, the patterns of industrial conflict, and the institutions of skill development. While the essential features of employment relations are comparable across countries, there are considerable and enduring variations in the ways in which these relations are governed. National patterns of governance are primarily contingent upon the differential roles of employers, employees, labour unions, and the state in creating and changing industrial relations institutions. Frenkel and Peetz (1998) identify four broad models of labour market governance in East Asia: state unilateralism, state–employer domination, state–union corporatism, and national tripartite arrangements. Other scholars (Kuruvilla and Erickson, 2002) follow the same principle but adopt a more disaggregated approach to developing a largely country-based typology of industrial relations models.

Welfare regimes are a key institutional domain of the political economy that impacts labour market development and influences economic performance. The country-specific features of welfare regimes impinge upon industrial relations by influencing wage structures and labour utilization strategies. They exert shaping influence on economic activity by giving rise to high labour costs that may lead firms to push for industrial upgrading and technological innovations or reduce national competitiveness and hamper employment growth in labour-intensive sectors. Cross-country variations in welfare regimes are also likely to generate the different patterns of employment policies as reflected in gender gaps in earnings and unemployment duration. Holliday (2000, 2005) suggests that East Asian welfare regimes do not fit into Esping-Anderson’s famous three-fold typology and can be better described as productivist welfare capitalism that subordinates social policy to development imperatives. Several authors have challenged this encompassing depiction and argued that institutional variations in the welfare

5 Esping-Anderson’s typology (1990) of liberal, conservative, and social democratic welfare states distinguished between the degree and mode of welfare provision.
systems of East Asia have emerged due to pressures both exogenous and endogenous to these institutions. Kwon (2005b) makes a distinction between selective and inclusive developmental welfare states, for instance; following Esping-Anderson, Ramesh (2003) divides East Asian welfare regimes into a liberal variant (Singapore), a liberal–conservative orientation (Taiwan), and a nascent conservatism (Korea).

It should be noted that variations in the national configurations of business systems, financial architectures, and labour markets are shaped by different policy and regulatory regimes. National regulatory frameworks and reforms can affect the nature and direction of institutional changes in product, financial, and labour markets. Competition policies and antitrust legislation can reconfigure both intra-firm and inter-firm relations, for instance; financial market structures and corporate governance patterns are contingent upon regulatory practices and rules; labour markets and industrial relations also reflect policy and legislative reforms. Much will depend, of course, on the extent to which policy and legislation are effectively implemented and whether they are supported by key societal groups (Walter, 2008). Both exogenous and endogenous pressures can lead to changes in these policy and regulatory frameworks that in turn transform the contours of key capitalist institutions in East Asia. The analytical approach adopted in this study thus treats policy reforms and regulatory rules as crucial intervening variables that can serve to reproduce or to reshape business, financial, and labour institutions.

These three dimensions for comparing national capitalist models in East Asia and their respective key institutional components are summarized in Table 1.2. Together, they cover much of the ground that prominent comparative studies on capitalist varieties examine. The general discussion and characterization of these institutional dimensions are meant to be suggestive rather than exhaustive. The primary purpose is to demonstrate how and why they are conceptually and empirically relevant to a viable typology of capitalism.

**Table 1.2. Institutional dimensions of comparative capitalism**

<table>
<thead>
<tr>
<th>Business systems</th>
<th>Financial architectures</th>
<th>Labour market regimes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key components</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Intra-firm relations and coordination</td>
<td>1. Financial market structures</td>
<td>1. Employment relations</td>
</tr>
<tr>
<td>2. Manager–worker interactions</td>
<td>2. Corporate governance patterns</td>
<td>2. Union organization and strength</td>
</tr>
<tr>
<td>3. Inter-firm alliances and networks</td>
<td></td>
<td>3. Degrees and modes of welfare provision</td>
</tr>
</tbody>
</table>
Guiding Principles

In existing comparative literatures, different principles are used to construct typologies of capitalism. As already noted, the standard VoC typology is based on the principle of coordination, delineating the relative extent of market coordination versus strategic coordination (Hall and Soskice, 2001). While most scholars accept the importance of this distinction, even those sympathetic to the VoC approach have accepted that it omits something important.

A number of scholars have emphasized the importance of governance (Weiss, 1998; Boyer, 2005; Hancké et al., 2007b: 23–4), arguing for closer attention than in the VoC approach to politics and the distribution of political power. Höpner (2007), too, distinguishes between ‘coordination’ and ‘organization’, in which the latter refers to various social and political institutions that authoritatively override market processes and outcomes. Along similar lines, Streeck (2009: 153–5) defines organization as a core component of capitalism, signifying the presence of ‘Durkheimian (political) institutions’ that impose collective obligations on actors that they would not voluntarily accept. ‘Coordination’, by contrast, which reduces transactions costs, can be promoted by voluntaristic ‘Williamsonian’ institutions internal and external to market actors and which are present in both CMEs and LMEs. Höpner’s and Streeck’s notion of organization is close to what Dahrendorf defined as ‘plan rationality’, which had ‘as its dominant feature precisely the setting of substantive social norms. Planners determine in advance who does what and who gets what’ (Dahrendorf, 1968: 219). Johnson (1982: 18–26) also drew on this in distinguishing between ‘plan rational’ (Asian) and ‘plan ideological’ (communist) developmental states, a distinction that Henderson (2011) develops in arguing for the important role of authoritative political intervention in many Asian developmental states to discipline firms and to shape economic outcomes. Schmidt (2009) also argues for closer attention to the varying role of the state in capitalist economies, claiming that a third ‘state-influenced’ market economy model is required to capture the essence of successful national capitalism in France and parts of East Asia. Finally, along similar though less statist lines, some recent comparative studies (Nölke and Vliegenthart, 2009; Schneider, 2009) emphasize hierarchies—of various corporate, class, and political kinds—as key mechanisms of resource allocation in emerging market economies.

Thus, there seems to be widespread agreement that the original VoC approach omits an important non-market dimension of some capitalist economies, in which political, corporate, and social hierarchies of power allocate resources,

6 For Streeck, ‘disorganized’ capitalism signifies the absence of such institutions.

7 Strikingly, neither draws upon Oliver Williamson’s classic distinction between markets and hierarchies as allocation mechanisms (see Williamson, 1975).
constrain market activity, and enforce rules and social norms. A recognition of this dimension of capitalism is also consistent with our empirical understanding of East Asian political economies over the past half-century in two important ways. First, there is general agreement that governments in East Asia have been more actively involved in guiding economic outcomes than most of their counterparts in North America and Western Europe (World Bank, 1993; Stiglitz and Yusuf, 2001), though of course its nature and levels have varied significantly across the region (MacIntyre, 1994; Jomo, 2001). Although state intervention has been significantly reduced in all East Asian countries since the 1980s, such cross-country variations have persisted to some degree. Second, key social groups and hierarchies have also been important mechanisms for governing economic activity, particularly business and labour. The concepts of ‘embedded autonomy’ (Evans, 1995), ‘governed interdependence’ (Weiss, 1998), and ‘state-market condominium’ (Underhill and Zhang, 2005) indicate that the state organization of economic activity in the region takes place within broad social contexts and is shaped and mediated by various societal institutions (Doner, 1992; Clark and Roy, 1997). Thus, the state organization of the economy must be viewed in close relation to the social coordination of private market behaviour to explain the trajectory of capitalist development.

Table 1.3 characterizes heuristically the different ways in which these two governance mechanisms interact with each other and the resultant configurations of economic organization. When extensive state involvement exists alongside well-organized social groups (Cell I), economic activity is coordinated through mutually dependent and negotiated or co-governed relations. On the other hand, where state intervention in the economy is comparatively modest and weakly organized social groups play an ineffective role in market processes (Cell VI), the organization of economic activity tends to be atomistic, fluid, and individualized. Due to the lack of coordination and monitoring capabilities on the part of the state and key social groups, powerful individuals or small members of associates control the commanding heights of the economy, giving rise to the personalized character of market governance.

### Table 1.3. Variations in the national modes of economic governance

<table>
<thead>
<tr>
<th>Social coordination of economic action</th>
<th>Strong</th>
<th>Weak</th>
</tr>
</thead>
<tbody>
<tr>
<td>State organization of the economy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extensive</td>
<td>I</td>
<td>II</td>
</tr>
<tr>
<td>Co-governed</td>
<td>III</td>
<td>IV</td>
</tr>
<tr>
<td>Modest</td>
<td>Networked</td>
<td>Personalized</td>
</tr>
</tbody>
</table>

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In the case of poorly organized and fragmented social groups coexisting with a well-organized state that moulds most components of economic activity through a myriad of interventions (Cell II), the mode of economic management is heavily state led. This generates a top-down governance structure in which multiple socio-economic actors and institutions are connected hierarchically to each other through the subordination of economic action to centralized authority. Finally, where state intervention is limited but the role of highly organized social groups in coordinating market behaviour is crucial (Cell III), economic governance is based on a multiplicity of socio-economic ties or networks among a broad array of organizational stakeholders—firms, unions, banks, and government agencies. Such networks are shaped as much by informal norms of reciprocity as by formal relations permeating business, financial, and labour institutions and facilitate coordination both within and between them.

A Four-Fold Typology

In line with each of the four kinds of economic organization, the three institutional domains—business systems, financial architectures, and labour market regimes—take on different characteristics, leading to four VoC, as detailed in Table 1.4. In the co-governed mode of economic activity, intra-firm relations are typified by concentrated ownership and non-participatory management structures. To the extent that business groups are highly horizontally integrated, this may suppress the development of networks across industrial sectors. The financial system relies largely on indirect finance through bank loans, reflecting the desire of the state to harness financial markets for industrial policy purposes and of business groups to retain ownership control. These structural features of business and financial systems facilitate the insider pattern of corporate governance in which owner-managers dominate. The development imperatives of the state and the political power of private business lead to relatively weak unions and limited collective bargaining. However, to compensate labour for repressive industrial relations policies, the state may institute employment protection and welfare programmes, invariably confined to regular workers in large firms. As important, government–private partnerships and long-term employment promote and encourage extensive vocational training.

When the state-led mode of market governance prevails, a significant role for state-owned enterprises (SOEs) is normal. However, ownership structures in many SOEs may be more fragmented than this implies, as various national and local government agencies may have significant ownership stakes or other means of exerting influence. Privately owned firms, many of which are small and medium sized, generally also have concentrated ownership. In both SOEs and private firms that feature top-down patterns of work organization,
### Table 1.4. Core features of East Asian varieties of capitalism

<table>
<thead>
<tr>
<th>Business systems</th>
<th>Co-governed</th>
<th>State-led</th>
<th>Networked</th>
<th>Personalized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intra-firm relations</td>
<td>Concentrated ownership</td>
<td>State ownership in SOEs; ownership concentration in private firms</td>
<td>Modestly high ownership concentration</td>
<td>Ownership and management centralized</td>
</tr>
<tr>
<td>Manager–worker interdependence</td>
<td>Low; little employee participation</td>
<td>Top-down patterns of work organization</td>
<td>Extensive managerial delegation to workers</td>
<td>Very low/zero employee influence</td>
</tr>
<tr>
<td>Inter-firm alliance</td>
<td>Medium to low (if vertical integration is high)</td>
<td>Rare and sporadic</td>
<td>Extensive, institutionalized and facilitated by industrial associations</td>
<td>Limited or primarily based on personal linkages</td>
</tr>
<tr>
<td>Financial architectures</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial regulation</td>
<td>State guided but with business influence</td>
<td>Heavily state controlled</td>
<td>State influenced but significant business inputs and influences</td>
<td>State controlled but heavy private influence</td>
</tr>
<tr>
<td>Market structures</td>
<td>Largely bank based but better developed capital markets</td>
<td>Dominance of debt finance</td>
<td>Bank based but more important capital markets</td>
<td>Relation-oriented finance; poorly developed equity markets</td>
</tr>
<tr>
<td>Corporate governance</td>
<td>Insider model</td>
<td>Highly bureaucratized in SOEs; insider practices in private firms</td>
<td>Stakeholder/insider dominated</td>
<td>Insider model; dominated by owner-managers</td>
</tr>
<tr>
<td>Labour market regimes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Union organization</td>
<td>Relatively weak</td>
<td>Strong but controlled in SOEs; weak in private firms</td>
<td>Relatively powerful</td>
<td>Fragmented and very weak</td>
</tr>
<tr>
<td>Employment relations</td>
<td>Limited collective bargaining; longer term employment; strong vocational training</td>
<td>Limited bargaining; long-term employment and relatively strong training in SOEs; limited and weak in private firms</td>
<td>Firm-based bargaining but with informal coordination through national organizations; internal labour markets characterized by long-term/lifelong employment and firm-specific training</td>
<td>No/little collective bargaining; unstable and short-term employment; very weak in-firm training</td>
</tr>
<tr>
<td>Welfare provision</td>
<td>Employment protection and welfare benefits confined to workers in large firms</td>
<td>Public paid and quite extensive in SOEs; limited in private firms</td>
<td>Public and private funded; benefits varied across sectors and firms</td>
<td>Better welfare provision in SOEs; public funded but very limited in private firms</td>
</tr>
<tr>
<td>National cases (1980s)</td>
<td>Korea, Taiwan</td>
<td>China, Malaysia, Indonesia</td>
<td>Japan</td>
<td>Philippines, Thailand</td>
</tr>
</tbody>
</table>
employees have little influence over strategic decision processes. By the same token, inter-firm alliances and cross-sector coordination among state and private firms are rare and sporadic, albeit for different reasons. Given extensive state controls over financial market regulation, debt financing through banks is predominant and equity financing is weakly developed. Corporate governance in SOEs may be highly bureaucratized and dictated by purposes other than wealth maximization, whereas corporate governance in private firms is imbued with insider practices. While SOE unions may have dense memberships and may be relatively well organized, they are more an instrument of state policy than a negotiating partner. In line with the poorly organized private business sector, unions in privately owned firms tend to be highly fragmented and lack any effective workplace organization. Welfare provision and in-firm training may be quite extensive in SOEs but remain limited and weak in privately owned firms.

The networked variety of capitalism is closely associated with highly developed and mutually dependent intra-firm and inter-firm relations. While ownership in firms or business groups may be relatively concentrated, mainly through cross-shareholdings, management structures are likely to be more collective, with consensus building running across hierarchical levels. Similarly, work organization may exhibit high levels of interdependence between employers and employees and of managerial delegation to workers. Equally important, firms maintain close alliances with each other both within and between different sectors; such alliances are often facilitated by coherently organized business associations. In this densely networked business system, stakeholders rather than shareholders matter. The dominance of bank finance and the lack of hostile takeovers foster an insider model of corporate governance. Mirroring highly organized private business and bottom-up management structures, unions may be influential at workplace and even national levels. While wage bargaining may be firm based, informal coordination on bargaining through national labour and employer organizations is more likely. Close interactions between stakeholders encourage the growth of internal labour markets, particularly in large firms. Often characterized by long-term and even lifetime employment and firm-specific training, they generate employment stability but functional flexibility.

The fourth and final variety of capitalism features, first and foremost, highly personalized intra-firm relations, with ownership and management concentrated in the hands of individual founding owners and family members. The degree of managerial trust of workers is very low and employee participation in decision-making virtually non-existent. Business-to-business coordination is limited; to the extent that firms develop inter-firm or cross-sector relations, these are typically based on personal linkages rather than on long-term, institutionalized, and mutually dependent networks. Capital markets are
poorly developed, due both to the desire of business elites to maintain family control and the weak ability of a poorly organized state to promote market growth. Large firms often obtain formal and informal finance through family-owned institutions, political connections, or personal relations. Relationship-oriented finance and high ownership concentration encourage an insider pattern of corporate governance. Finally, unions have little influence at workplace and national levels, partly because they are weakly organized and partly because there may be restrictions on union formation and activity. In line with weak unions, collective bargaining, largely firm based, is limited and ineffective. Employment relations tend to be unstable and short-term and are unlikely to be mediated by weak unions. Neither workers nor employers thus have any strong incentives to invest in specific skills and encourage vocational training. Likewise, weakly organized states and business are unable to promote skills development and improve innovation performances.

The representative country cases provided in Table 1.4 conform broadly, though not exactly, to the core defining features of each of the four VoC and serve to illustrate major institutional differences between them. It is important to note that these classifications reflect the institutional configurations of national capitalist models that prevailed in the 1980s against which the country chapters that follow set their points of empirical departure for analysing the changing varieties of East Asian capitalism. This four-fold typology based on the dynamics of market governance provides a conceptual framework for examining capitalist development generally and in East Asia in particular. Equally crucially, it helps distinguish varieties of institutional underpinning of capitalism not only within different regions but also between different countries within the same region.

**Defining Institutional Change**

In asking how capitalist political economies evolve, it is important to be clear about what they are. Capitalism is a system in which actors motivated by self-interest operating through markets and enjoying extensive (but incomplete) private property rights play a dominant role in the allocation of economic resources. But narrowly economic definitions of capitalism overlook that it is also an extensively institutionalized, social order (Streeck, 2009: 3). As we have emphasized, market actors and transactions depend upon and are shaped by a variety of institutions, which are ‘patterns of human action and relationship that persist and reproduce themselves over time, independently of the identity of the biological individuals performing within them’ (Crouch, 2005: 10). These institutions include at one end of the (national) spectrum the formal political institutions associated with the state and at the other end institutions
such as the firm (conceived of as a non-market hierarchy) and the family, with associations of various actors occupying an intermediate position. This also suggests that political economies might, for example, evolve towards lower levels of state intervention, without being any less ‘institutionalized’ at the sub-state level or without continuing to rely upon the extensive coordination of actor behaviour through non-state institutions (Höpner, 2007).

As is often pointed out, there are also many institutions of a relatively informal kind in which norms rather than binding rules are the most important constraints—these may be norms related to political leadership transition, to patriarchy within families, to age-related deference, etc. (Helmke and Levitsky, 2004). Generally, even formal, rule-based institutions also operate according to a variety of informal behavioural norms. Institutional change might therefore occur in relation to formal rules and/or informal norms. For example, US-style formal rules relating to corporate governance that strengthen minority shareholder rights might be adopted in an economy formerly characterized by more opaque norms that privileged insider owner-managers. But if formal enforcement mechanisms are weak and informal norms remain intact, actual corporate behaviour may remain relatively unchanged (Walter, 2008).

Another important distinction is between revolutionary and gradual change, with some recent studies arguing that relatively little attention has been devoted to the latter. In this view, institutional change can accumulate over time in ways that neither individual actors nor social scientists may expect and that lead eventually to very different institutional forms (Mahoney and Thelen, 2010). Actors may gradually redefine their relationship to institutions, which can be thereby reconfigured or even sidelined (e.g. this may have happened to the legally established church in countries such as the United Kingdom over the past century). This suggests that institutional change may not even require innovation in formal rules and processes, as it may occur when actors gradually ‘recombine’ and reinterpret existing institutions in novel ways. In an earlier work, Streeck and Thelen (2005) distinguish five different forms of incremental institutional change: displacement, when actors defect from old to new institutions; layering, when old institutions coexist alongside new ones but in which support gradually shifts towards the latter; drift, when institutions fall into neglect; conversion, when institutions are put to new purpose; and exhaustion, when institutions suffer from decreasing returns.

Conceived of in this way, institutions as social processes are in a constant process of dynamic evolution and change is likely to be the norm rather than the exception, contrary to the assumptions of the VoC approach. Although they can create powerful constraints and ‘path dependence’, there may be more than one path open to social actors and institutional evolution more contingent than either actors believe or some theories allow. Indeed, some
individual actors may be in a state of permanent tension with institutions, choosing whether to follow, break, challenge, recombine, or innovate around associated norms and rules (Crouch, 2005: 19). This also implies that although institutions are often conceived as constraints upon the behaviour of individual actors, they can also empower individual actors. They are also endogenous, sometimes being the direct object of social and political innovation (Hall, 2010). Although the scope for actor autonomy in breaking out of or modifying established institutions should not be exaggerated, it may be especially prominent under capitalism, in which entrepreneurs seek to use, avoid, or sometimes undermine institutions for self-interested purposes. Given their extensive dependence on the self-interest of particular actors, capitalist social orders, as Marx, Schumpeter, and Polanyi among others emphasized, may thus have natural endogenous tendencies towards institutional change and destabilization. Financial innovation is perhaps the most conspicuous example of this in recent years (Tett, 2009), though it is not unique, as Sako’s (2006) and Streeck’s (2009) accounts of evolving Japanese and German manufacturing since the 1980s show.

There is also no reason why institutional change might not proceed more rapidly in some domains than in others. More extensive options for creating global production and supply chains might result in relatively rapid change in business sector relations with labour without disrupting financial market systems. Of course, the opposite might also be true: it is difficult to generalize about the kinds of areas in which rapid change is most likely. This also raises the interesting questions of whether and how much change in one area (e.g. finance) might spill over into change in others (such as labour markets or business innovation systems), and how these interrelationships affect any institutional complementarities that may have existed.

In sum, identifying and measuring change in capitalist political economies and social orders generally remains one of the most difficult of all enterprises in the social sciences and is likely to remain so. We cannot give a general answer to the question of precisely how path-dependent institutional evolution is, or to the question of when institutional change is gradual or ‘fundamental’, or when its effects are marginal or deep. These questions are left to the individual authors, who make different judgements about particular cases.

Explaining Institutional Change

This section briefly outlines a framework for explaining the dynamic evolution of capitalist political economies, keeping the above considerations in mind. This framework is not intended to be exhaustive, nor is it rigidly applied in each empirical chapter. Rather, it maps out the main competing explanations.
of institutional change in capitalist political economies, upon which subsequent chapters draw in different ways. In the concluding chapter, we pull together the findings of the case study chapters and assess their collective theoretical implications in the light of this framework.

The causes of institutional change can be categorized in different ways. Distinctions are commonly made between ‘endogenous’ and ‘exogenous’ causes (often approximating to internal/external or domestic/international distinctions); between market-based, social and political causes; and between material and ideational causes. All of these distinctions are artificial and involve oversimplifications of some kind. The distinction between domestic and international factors is especially problematic given the growing importance of transactional actors and forces (MNCs, some advocacy coalitions, policy discourses) in many countries since at least the mid-twentieth century. The endogenous–exogenous distinction is also often dependent upon the particular theoretical framework being deployed (what is exogenous for an economist may often not be for a sociologist). ‘Exogenous shocks’ such as wars or global recessions are in any case always intermediated by domestic institutions and economic structures. Nor are they simply material in nature, as they must always be interpreted by social actors. National politicians often try to frame economic recessions as ‘global’ in origin and hence as beyond their control, whereas reformers often propose alternative narratives that locate their sources and/or particular effects in dysfunctional national institutions. Sometimes, too, solely national, ‘endogenous’ crises may be reframed by political entrepreneurs as grave ‘competitiveness’ crises to facilitate the building of reform coalitions (Streeck, 2009: 164).

Hence, while we recognize that economic factors such as sustained growth underperformance may ultimately be important contributors to institutional change and economic crises provide opportunities for reformers and insurrectionaries, they are certainly not sufficient causes and probably not even necessary ones given the importance of incremental change. As regards their insufficiency, all economic forces are crucially intermediated by social and political institutions and by policy discourses. For these reasons, we divide the main explanations of institutional change into change coalitions, state action, and policy discourses.

The ability of actors to bring together different kinds of individuals and social movements into change coalitions is often seen as a crucial determinant of institutional change (Mahoney and Thelen, 2010). Economic shocks, such as deep recessions and marked relative economic decline of the kind that has plagued countries in recent times such as Zimbabwe and North Korea, will not result in institutional change unless such coalitions succeed in overcoming the various obstacles to change noted by Hall (2010: 207–13): uncertainty about the consequences of change, standard collective action dilemmas, deep power
asymmetries, veto-player opposition, intra-coalition distributional conflicts, etc. The relative ease with which such obstacles can be overcome will be shaped by social norms as well as by the way in which political institutions channel, shape, and block the exercise of power, including the access of coalitional actors to the media, to policymakers, to political parties, and to the means of organized violence. This simply underlines the point already made that institutions have multiple interpretations and that political actors must act in circumstances not of their own choosing, though they may opportunistically take advantage of existing institutions (or new combinations or interpretations of them) to achieve change. That the existing institutional framework is not entirely determining is underlined by the point that change coalitions may include transnational actors, who have more exit options and often have access to different kinds of institutions and resources. At different points in time and in different places, foreign states, international institutions, powerful individuals, MNCs, NGOs, and other transnational social movements may align with domestic actors in change coalitions or with their opponents.

State action and capacity can also be an important source of institutional change, not least because of the resources that states can command. Successful state action of this kind requires ‘capacity’, which depends upon a minimum degree of organizational efficiency and resources as well as some level of autonomy from social interests that oppose change or who prefer an alternative path of reform. Again, existing national political institutions and rules on the one hand and the density of social networks and associations on the other are both likely to affect the prospects for such state-led change. However, the distinction between state action and societal coalitions is not always easy to make, since relevant state actors include leaders, political parties, and bureaucracies: all of whom may be influenced or penetrated by some social interests. The literature on the ‘embeddedness’ of East Asian states is relevant here (Evans, 1995), though so too are classic developed country cases of successful institutional change such as Britain under Thatcher from 1979 (King and Wood, 1999; Crouch, 2005: 143–50). There, government and party institutions that concentrated power in the hands of a highly ideological leader and her allies helped to overcome resistance from various social groups, notably organized labour, but this case also shows that the successful mobilization of a supporting coalition of business and voters who responded to a powerful narrative of the causes of and solutions to British economic and social underperformance were important. State capacity to enforce institutional change and the new rules and behavioural norms that they bring can also increase the credibility of institutional change and thereby convince opportunists and other potential supporters to join change coalitions. Substantial state capacity can also reduce the gap mentioned above that frequently emerges between formal institutional change and real actor behaviour.
As for the third cause of institutional change, policy discourses, we have already noted that they are likely to be important components of successful change coalition formation and authoritative state-led reform. The ability of institutional entrepreneurs to construct a credible narrative about the shortcomings of existing institutions and to reduce uncertainties about the consequences of reform is likely to be crucial in both respects. Such narratives can draw upon new scientific findings or upon new ideas linking institutions and social outcomes, as well as upon supporting material facts. In the right circumstances, credible narratives of this kind may alter actors’ perceived interests and facilitate the reconstruction of political coalitions. As Jabko (2006) has shown, political entrepreneurs often draw strategically and selectively upon such ideas and the epistemic actors associated with them. The source of such ideas may be foreign and may be actively or more passively promoted by international organizations and social movements; they can also be associated with particularly successful foreign countries. But the case for the emulation of foreign institutional models must generally be made explicitly, which will include assessments of their likely impact for a variety of social groups. This case is likely to be easier if these ideas resonate with existing social norms and if a credible case can be made that foreign-born practices will fit with other social norms and institutions that have higher levels of support (Cortell and Davis, 2000: 23–4; Acharya, 2009). All of this suggests that most kinds of ‘structural’ forces, from globalization and regional integration to economic crises, need not be determinant or have simple linear implications. Even ‘crises’ are, in the end, social constructions that may or may not be interpreted in ways that result in successful institutional change (Blyth, 2002; Widmaier et al., 2007).

As the above discussion implies, we do not expect these three factors causing institutional change to be easily separated in practice. Indeed, there are good reasons to believe that they are likely to be mutually reinforcing, so that it would be surprising if there were not elements of all three in cases of successful institutional change. This means that discovering ultimate causes of change is always likely to be difficult. As noted earlier, capitalist political economies are likely to have tendencies towards endogenous change and instability, and gradual and sometimes imperceptible change may accumulate to a tipping point when proximate factors (such as deep recessions) result in fundamental change.

**Organization of the Book**

The chapters that follow elaborate the central theoretical and empirical issues raised here. This chapter has presented a panoramic view of capitalist
development across East Asia and provides a foundation for understanding cross-national variations in institutional practices in individual countries. The remaining chapters are organized around the major empirical concerns of the book through division into three parts. The first part focuses on the changing nature of business-government relations that calibrates the character of other institutional arrangements in the national political economy. The second part assembles chapters on changes and variations in financial market structures and corporate governance patterns. The third and final part brings together chapters that address the evolution of labour relations systems. The concluding chapter picks up the major themes of the book, provides a synoptic analysis of institutional changes in national capitalism, and assesses the value of causal propositions by drawing upon the contributions to this book and other prominent empirical studies. It also explores the implications of the main findings of the book for future research on capitalist development in East Asia and beyond.

The country chapters do not employ a rigid common methodology to maximize comparability across the different cases nor do they attempt to provide a unified approach to accounting for changes and variations in key institutional domains that govern financial, product, and labour markets. The empirical facts and causal processes remain too contested for unity of this kind to be a realistic goal. However, the individual contributions take the key institutional features of national capitalism around the late 1980s as their respective points of departure and set their empirical analyses against the typology of East Asian capitalism developed in this chapter. More importantly, while the country chapters encompass a range of different cases, specific issues, and diverse methodologies, they are all structured around the two dominant themes of the book—the continuities and changes in the institutional underpinnings of capitalist development and the main driving forces behind them. These two themes run through the three parts of the book and facilitate an integrated analysis of how changing institutional practices in business, financial, and labour systems interact with each other and affect the evolution of capitalist political economies in the region.